

# **INSTEAD OF A WINDFALL, THE REPUBLICAN TAX CUTS WILL BE OUR DOWNFALL**

By U.S. Rep. Maurice Hinchey (D-NY)  
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The Republican tax bill recently passed by Congress is the most fiscally irresponsible piece of legislation to come through Capitol Hill since a similar tax cut nearly bankrupted America in the early 1980s. It's taken us almost 20 years to pull ourselves out of the hole created by the misguided supply side policies of that era, and now the Republicans are proposing to squander the first balanced budget in more than a generation.

The "Financial Freedom Act" fails to live up to the promises of its proponents in several key areas. The bill's tax cuts were not written with middle class taxpayers in mind, but are disproportionately aimed at the wealthy. It is riddled with loopholes and tax breaks that benefit large corporations and special interests. If that weren't bad enough, it does not provide a single penny for debt reduction or the solvency of Social Security and Medicare. And finally, the \$792 billion price tag is based on a shameless array of budgetary gimmicks and accounting tricks that mask the real \$2 trillion cost of the bill.

**Tax Breaks for the Wealthy.** The lion's share of the Republican tax cuts will go to those in the highest income brackets. The U.S. Treasury Department estimates that the top 20 percent of households – that is, everyone who makes more than \$120,000 per year – will receive more than 75 percent of the total benefits in the bill. By contrast, those in the bottom 60 percent – anyone making \$40,000 or less – will receive only 7.5 percent of the tax cuts. Put another way, the Republican plan will cut an average of \$32,000 from the annual taxes paid by the richest households, while those New York families earning \$32,000 will save only about \$150 per year.

**New Loopholes for Corporations.** While the Republicans tout the benefits of their bill for individuals, they say little about the generous breaks they give to the corporate sector. The legislation is larded up with nearly \$100 billion in tax cuts that benefit the wealthiest companies in America. The most egregious example is a change in the interest expense allocation rules for multinational corporations that will essentially reward and encourage companies that shift a bigger share of their businesses offshore. In addition, by repealing the corporate alternative minimum tax, the Republicans make it possible for profitable companies to avoid paying any federal income taxes.

**Depletes Social Security.** The Republicans are fond of saying that their \$792 billion tax cut accounts for only one-quarter of the projected budget surplus – \$2.9 trillion over the next 10 years – leaving ample funds to pay down the national debt and supplement Social Security and Medicare programs. This ignores several key facts: first, almost \$2 trillion of the projected budget surplus belongs in the Social Security trust fund. These funds already have a claim on

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them and should not be used for anything other than to pay the benefits of future retirees. Republican boasts about the amount devoted to Social Security leave out the fact that all of these funds will be collected under the current payroll tax regime. There is not a single penny of new money in their plan to shore up the program. Social Security reserves – including the \$2 trillion surplus – will last through 2034, which means that the Republican plan ensures Social Security will be bankrupt in 35 years.

**Cuts Domestic Programs.** If this tax cut succeeds, we will pay an additional \$141 billion in interest on the national debt. The extra interest alone inflates the cost of the Republican bill to \$932 billion. But with nearly all the non-Social Security surplus spent on tax breaks for rich people and corporate special interests, there is no money left to do anything for Medicare or any other domestic program, including veterans' health care, cancer research, transportation, or education. Furthermore, the Republican tax bill is sure to bust the budget because it assumes we will not have to pay for any emergencies – no floods, no hurricanes, no military actions, no farm crises – during the next 10 years.

Perhaps the most important thing I have done since coming to Congress was to vote for the 1993 deficit reduction package that set us on the road to fiscal responsibility. During the past seven years, our policies wiped out decades of red ink and created the first budget surplus in 30 years. In the process, we have paid off \$142 billion of the national debt, saving almost \$200 billion in extra interest costs and fueling unprecedented economic growth. Capital that once would have been borrowed by the Treasury to finance the government is being put to more productive uses. Businesses are investing in technology and expanding into new markets, and individuals are purchasing homes at record rates.

If the Republican tax plan becomes law, all of these gains disappear. Federal Reserve Chairman Alan Greenspan warned against the bill for just this reason. He understands that a return to deficit spending will grind economic growth to a halt. Interest rates will surely rise, increasing the cost of homeownership, business investment, and job creation.

The Republicans, however, are bound and determined to live in the past. I think we would be much wiser if we learned from past mistakes. The President's proposal would have ensured the solvency of Social Security, added much needed prescription drug benefits to Medicare, further reduced the national debt, and targeted \$250 billion of tax relief squarely at the middle class. These are the alternatives Congress should consider in the last months of this year. Anything else would be irresponsible.

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